Manitoba
Energy and Mines
Petroleum

Manitoba Petroleum Royalty and Tax Information

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Introduction

This booklet has been assembled to provide the reader with a general overview of the petroleum royalty/tax structure and incentive programs currently operating in Manitoba. As always, the reader should consult the appropriate Acts or Regulations for final authority.

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I. Manitoba Drilling Incentive Program

With the expiry of the previous drilling incentive program on December 31, 1991, a new Manitoba Drilling Incentive Program has been developed to encourage operators to drill for oil in Manitoba.

A. New Well - Holiday Oil Volume (1992 - 1996)

The new program provides licencees of new wells drilled on or after January 1, 1992 and prior to January 1, 1997 with a royalty/tax free "holiday volume" of oil. This "holiday volume" is sensitive to oil price and dependent on the well's location.

Each new oil well drilled in Manitoba during the program qualifies for a "holiday volume" of oil to a maximum of 10 000 m^3 or 10 years of production, whichever occurs first.

The program applies to wells drilled on either Crown or freehold owned mineral rights.

The holiday oil volume is calculated in accordance with the following equations (Schedule E of Petroleum Crown Royalty and Incentives Regulation):

If D is less than or equal to two kilometres:

$$HV = D(A) + B$$

If D is greater than two kilometres:

$$HV = A'(D^2) + B'$$

Where:

HV = the holiday volume in cubic metres for the new oil well which shall not exceed 10 000 cubic metres and shall be produced within the 10 years following the on production date of the new oil well.

D = distance in kilometres of the new oil well from the nearest well which is cased or has been cased for production from the deepest prospective formation completely penetrated by the new oil well, when the new well is finished drilling, with the distance being the distance in kilometres between the centres of the spacing units of the respective wells, as deemed by the director.

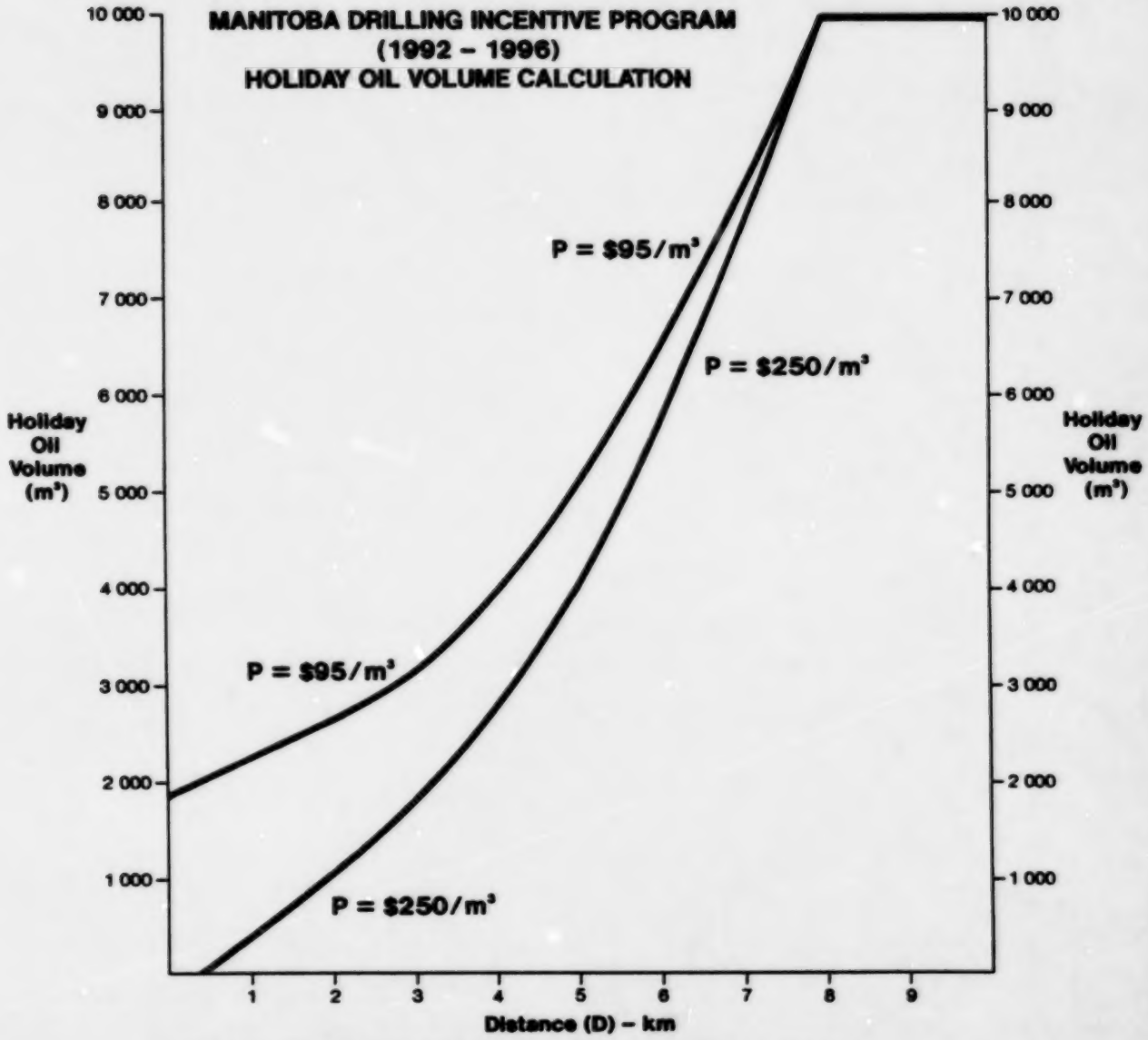
$A = 1.7\ P + 230$

$B = 3130 - 13.6\ P$

$A' = 0.17\ P + 106.9$

$B' = 3163 - 10.9\ P$

P = average price in dollars per cubic metre of Manitoba oil delivered to the IPL Cromer terminal during the month the well was spudded, as determined by the director.



D = DISTANCE FROM THE NEAREST WELL PRODUCING IN THE SAME FORMATION (km)

P = AVERAGE PRICE OF OIL AT IPL CROMER TERMINAL ($/m³)

B. Special New Formation - Holiday Oil Volume (1992 - 1996)

The new program also provides each well that is the first to produce from a nonproductive formation in Manitoba deeper than the Mississippian Bakken Formation and that is drilled on or after January 1, 1992 and prior to January 1, 1997, with a holiday volume of 50 000 m^3. This volume must be produced within 10 years of the first production.

C. Horizontal Well/Drain - Holiday Oil Volume (1992)

A horizontal well drilled prior to January 1, 1993 will receive a holiday volume of 7 500 m^3 or the holiday volume determined for the new well whichever is greater. Again, this volume must be produced within 10 years of the first production.

Each of the first four horizontal drains made from an existing well bore prior to January 1, 1993 will receive a holiday volume of 1 500 m^3.

All horizontal wells or wells in which horizontal drains have been drilled are classified as new oil wells for royalty and tax purposes.

D. Holiday Volume Account

Each licencee of a well or wells can establish a holiday volume account. The purpose of such an account is to provide flexibility in the allocation of earned holiday volumes. This account can be used to bank and allocate holiday volumes in accordance with the regulation.

In general the following rules apply:

- Each well must retain a minimum holiday volume of 500 m^3, any earned volume greater than 500 m^3 can be assigned to the licencee's account.

- A licencee can "top up" a well's holiday volume to a maximum of 2 500 m^3 using holiday volumes from the account.

- All holiday volumes from dry holes earning greater than 2 000 m^3 are assigned to the licencee's account.

- Holiday volumes are not transferrable from one licencee to another.

- Holiday volumes from a special new formation incentive cannot be included in this scheme.

- The regulation should be consulted for the details on these and other rules.

Table 1

HOLIDAY VOLUME CALCULATION/ACCOUNT EXAMPLES

HOLIDAY VOLUME CALCULATION

Wells Drilled	Well 1	Well 2	Well 3	Well 4	Well 5	Well 6	Well 7
Distance from Well Producing in Same Formation	0.4 km	0.4 km	3.2 km	1.6 km	0.4 km	0.4 km	8.0 km
Oil Price ($/m^3)	$125	$150	$125	$150	$125	$150	$150
Total Earned Holiday Volume (m^3)	1 607.0	1 284.0	3 113.3	1 866.0	1 607.0	1 284.0	10 000.0
Status	Producer (marginal)	Producer	Dry Hole	Producer	Producer	Producer	Dry Hole

HOLIDAY VOLUME ACCOUNT

Well	Status	H.V. Earned By Well m^3	Earned H.V. Applied To Well m^3	H.V. Assigned To Well (from Account) m^3	Total Holiday Volume m^3	H.V. Banked From Well (to Account) m^3	Account Balance m^3
1	Producer (marginal)	1 607.0	500.0	N/A	500.0	1 107.0	1 107.0
2	Producer	1 284.0	1 284.0	1 107.0	2 391.0	N/A	0.0
3	Dry Hole	3 113.3	N/A	N/A	N/A	3 113.3	3 113.3
4	Producer	1 866.0	1 866.0	634.0	2 500.0	N/A	2 479.3
5	Producer	1 607.0	1 607.0	893.0	2 500.0	N/A	1 586.3
6	Producer	1 284.0	1 284.0	1 216.0	2 500.0	N/A	370.3
7	Dry Hole	10 000.0	N/A	N/A	N/A	10 000.0	10 370.3

II. Provincial Crown Oil Royalties

Act: The Mines Act, (Cap. M160)

Regulation: Petroleum Crown Royalty and Incentives Regulation (MR 63/87 as amended by MR 264/87, MR 153/89 & MR /91)

Effective Date: January 1, 1992

Administered By: Manitoba Energy and Mines (Petroleum)

The Petroleum Crown Royalty and Incentives Regulation governs Crown royalties with provisions for four (4) associated classifications of oil for royalty purposes, namely:

(1) "Holiday Oil" being the initial volume of oil produced from a well drilled after December 31, 1986 or oil from a horizontal drain which is exempt from Crown royalties and taxes.

(2) "Incentive Oil" being oil produced from a new well drilled prior to January 1, 1987 during the well's "royalty/production incentive period", and

oil produced from an enhanced recovery project during the "EOR incentive period" granted under the EOR Incentive prior to January 1, 1992.

(3) "New Oil" being oil produced from a new oil well drilled on or after April 1, 1974 or a horizontal drain which is no longer "holiday oil" or "incentive oil", and

oil attributable to an EOR project in an old oil area.

(4) "Old Oil" being oil produced from wells drilled prior to April 1, 1974 that does not qualify as "incentive oil" or "new oil".

The base or "Old Oil" royalty is the volume of Crown royalty oil calculated using the formula shown in Table 2.

These calculated base rates apply to "Old Oil" produced from Crown owned mineral rights.

The Crown royalty volume for oil produced from a well or spacing unit is the base Crown royalty volume as calculated by the formula in Table 2 multiplied by the appropriate Calculation Factor for that Oil Classification.

Table 2 also provides examples of monthly production rates and the corresponding Crown Royalty rate (expressed as a percentage) for each oil classification. Page 12 provides a graphical illustration of these rates.

Note: Section 9 of the Regulation provides for the approval by Cabinet of the temporary or permanent reduction or exemption of Crown royalties charged on any oil or natural gas production where special circumstances are justified.

Table 2

Crown Oil Royalties

Base Formula:

Monthly Production per well in cubic metres (P)	Crown Royalty for the month in cubic metres (P)
0 - 50	$\frac{P^2}{265}$
50 and over	9.43 + 0.45 (P-50)

Oil Classification	Calculation Factor
Old Oil	1.00
New Oil	0.55
Incentive Oil	0.35
Holiday Oil	0.00

Crown Royalty (m^3) = Base Formula x Calculation Factor

$$\text{Crown Royalty (\%)} = \frac{\text{(Base Formula x Calculation Factor)}}{\text{Monthly Production}}$$

Sample Crown Royalty Rates

Monthly Production (P) m^3/month	Holiday Oil	Incentive Oil	New Oil	Old Oil
20	Nil	2.6%	4.1%	7.5%
50	Nil	6.6%	10.4%	18.9%
100	Nil	11.2%	17.6%	31.9%
250	Nil	13.9%	21.9%	39.8%
500	Nil	14.8%	23.3%	42.4%

III. Provincial Freehold Oil Tax

Act: The Oil and Gas Production Tax Act, (Cap. 037)

Regulation: Oil and Gas Production Tax Regulation MR 357/87 (as amended by MR 154/89 and MR 180/90)

Effective Date: April 1, 1987

Administered By: Manitoba Energy and Mines (Petroleum)

The Oil and Gas Production Tax Act (previously titled The Oil and Natural Gas Tax Act, Cap. 035) levies a monthly production tax on oil and natural gas from a spacing unit producing from freehold oil and gas rights.

The Act stipulates that the operator of the well is responsible for payment of the tax on any freehold oil or gas production. The mineral rights owner's and any other royalty owner's and working interest owner's share of the tax is deducted from the payment made to them by the operator from sales revenue.

Where a working interest owner takes their oil in kind and markets this oil, they may be designated as a special operator and are responsible for the filing of returns and payment of the tax for their share of production.

Taxes levied on oil production from freehold oil and gas rights are dependent on the monthly production rate of the spacing unit (in cubic metres) and the appropriate oil classification (similar to Crown oil royalties).

The regulation calculates taxes as a percent in accordance with the formulae shown in Table 3 for the appropriate oil classification. Page 13 provides a graphical illustration of these rates.

Table 3

Freehold Oil Taxes

Formula by Oil Classification:

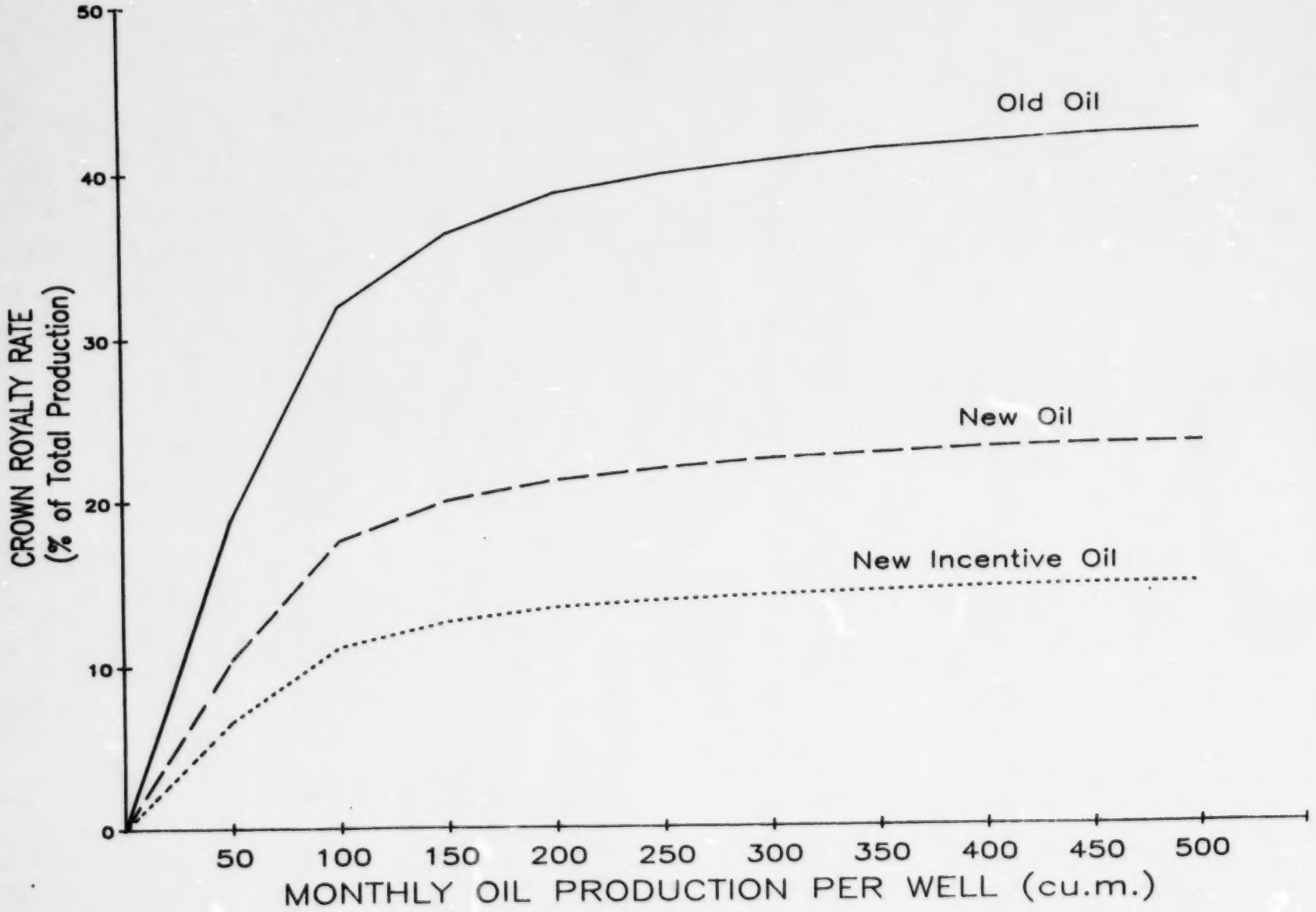
Oil Classification	Monthly Oil Production per well in cubic metres (P)	Oil Tax Rate for the well in % of production
Holiday Oil	- All Volumes:	Nil
Incentive Oil	- 56.0 or less:	Nil
	- more than 56.0:	$(9.27 - \frac{510}{P})$
New Oil	- 36.0 or less:	Nil
	- more than 36.0 but less than 65.0:	(0.23P - 8.11)
	- 65.0 or more:	$(19.59 - \frac{820}{P})$
Old Oil	- 20.0 or less:	Nil
	- more than 20.0 but less than 65.0:	(0.43P - 8.24)
	- 65.0 or more:	$(42.76 - \frac{1\,500}{P})$

Freehold Oil Tax Liability*

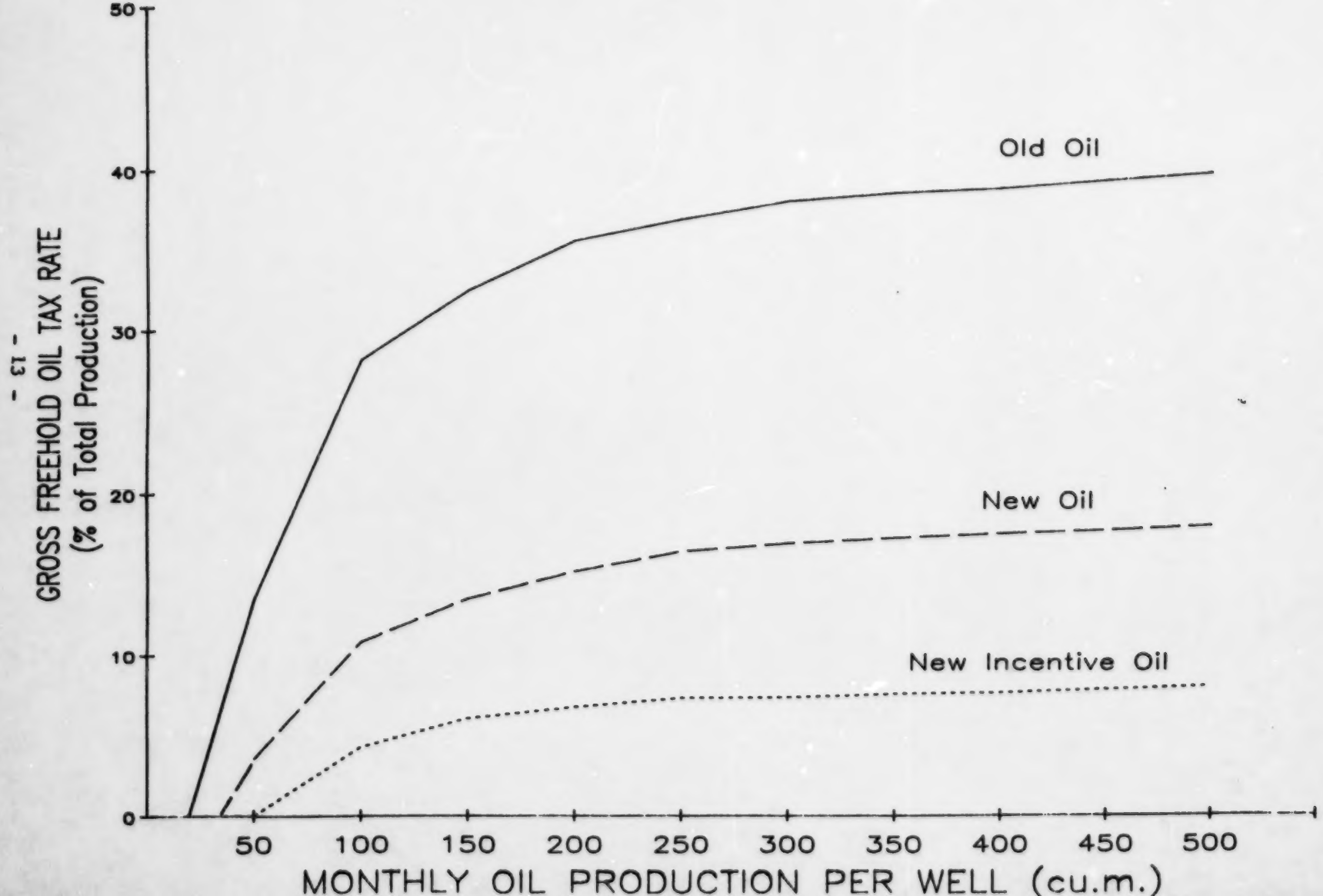
Prod. Rate of well (m^3/month)	Holiday Oil		Incentive Oil		New Oil		Old Oil	
	Gross Tax	Net Tax	Gross Tax	Net Tax	Gross Tax	Net Tax	Gross Tax	Net Tax
20	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
50	Nil	Nil	Nil	Nil	3.4%	2.9%	13.3%	11.3%
100	Nil	Nil	4.2%	3.6%	11.4%	9.7%	27.8%	23.6%
250	Nil	Nil	7.2%	6.1%	16.3%	13.9%	36.8%	31.3%
500	Nil	Nil	8.3%	7.1%	18.0%	15.3%	39.8%	33.8%

*This table illustrates an operator's gross and net tax rates as a percent of total production assuming a 15% freehold royalty lease.

MANITOBA CROWN OIL ROYALTY RATES



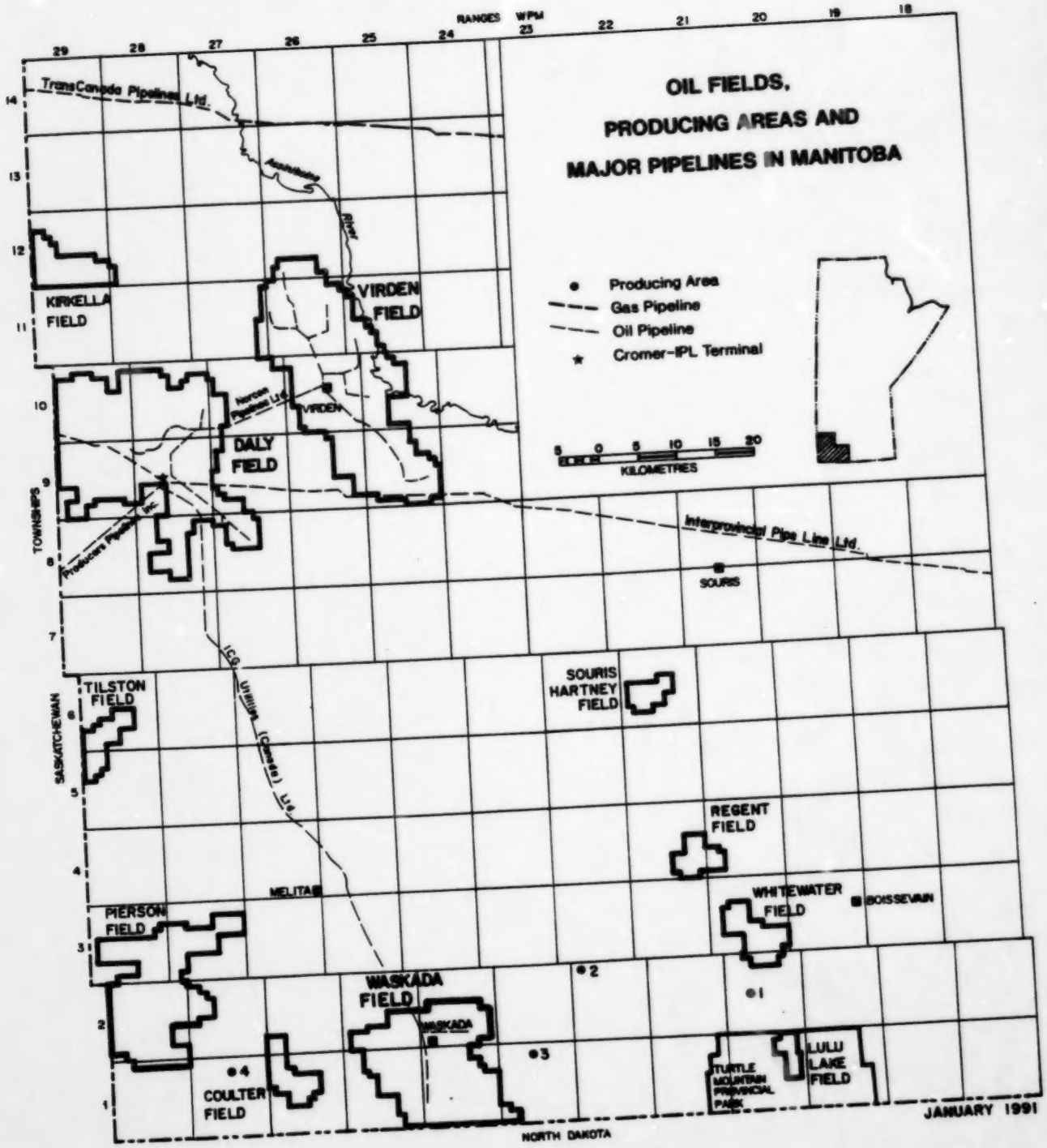
MANITOBA FREEHOLD OIL TAX RATES



IV. Provincial Gas Royalties and Taxes

The provincial Crown royalty payable on natural gas produced during each calendar month from a well or allocated to a spacing unit producing from Crown oil and gas rights is 12 1/2% of the volume consumed or sold off the location.

The provincial freehold tax payable on natural gas produced from a well or allocated to a spacing unit producing from freehold oil and gas rights is 1.2%.



OTHER PRODUCING AREAS

1. Mountainside
2. Deloraine
3. Goodlands
4. Lyleton